



John Swinney MSP
Cabinet Secretary for Finance and
Sustainable Growth
The Scottish Executive
5th Floor
St Andrew House
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21st June 2007

Dear John

In your media interviews yesterday you registered utilities as a major concern. I agree. For that reason our Multi Utility Diversion Framework Agreement (MUDFA) programme has the highest focus within this company.

Let me tell you why I am confident that we can manage the MUDFA programme within the budget:

To minimise the risk to both the project and to Edinburgh and ensure tight cost controls we have developed a detailed, two phase work programme. By managing the utilities diversion work first we gain considerable benefits in terms of risk mitigation, minimising disruption and through a predetermined programme maximising cost monitoring and control. The utility companies have bought into this concept.

The Utilities Diversion Contract is now a tendered contract with agreed rates. The £60 million budget has followed detailed measurement surveys and a base cost which includes significant contingency.

As Operations Director for Scottish Power I was accustomed to managing utilities diversion contracts. Alfred McAlpine Ltd, our MUDFA main contractor, has unrivalled experience of utilities work in Edinburgh. All of the key members of my management team have been selected on the basis of their experience and management skills in this area.

I noticed reference to a £200 million final cost. This is not a number recognised by myself or indeed anyone within the Tram Governance structure. As Chairman of the tie Board, I have been under immediate pressure from my staff and external Board colleagues to make this clear publicly. I feel that it would be more helpful and constructive to all concerned if I gave you this information privately.

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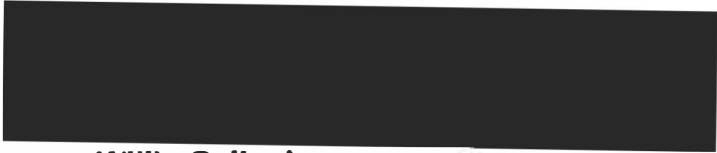
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I am writing to you privately in the hope that the foregoing will allay the concerns you have expressed. I am pleased to say that I have had a most useful and constructive meeting over dinner with Stewart Stevenson and I look forward to working closely with him and with you whatever decision you may reach on our two projects.

Yours sincerely



Willie Gallagher
Executive Chairman